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C O N F I D E N T I A L SANTIAGO 000957

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SUBJECT: SCENESETTER FOR AETC/CC VISIT TO CHILE (U)

Classified By: AMBASSADOR CRAIG C. KELLY; REASONS: 1.4 (B AND D).

11. (C) Summary: Your arrivals in Santiago follow shortly on the historic inauguration of Chile's first female president, former Defense Minister Michelle Bachelet. In foreign policy, Bachelet has declared a focus on strengthening ties with neighbors, while maintaining important relations with the U.S., Europe and Asia. We expect a positive bilateral relationship, with continued outstanding military to military relationships, but Bachelet's degree of support for U.S. positions on international political issues and free trade is unclear at this point. A possible complication is imminent ratification of the International Criminal Court and the application of American Servicemembers, Protection Act sanctions. Most notably, your visits add to a succession of high profile military to military visits during the last six months which include General Hagee (Oct 2005), General Schoomaker (Nov 2005), General Craddock (Nov 2005), the Defense Consultative Commission (Jan 2006), and Lieutenant General Schmidt and Mr. Bruce Lemkin visiting for the FIDAE airshow (Mar 2006). End summary.

Michelle Bachelet

12. (SBU) Michelle Bachelet's public statements, cabinet appointments and policy priorities appear to show her intention to govern independently, while generally continuing Concertacion coalition policies on free trade, human rights, fiscal caution and multilateral diplomacy. Her cabinet is comprised of experienced political figures and new faces, and is equally divided between men and women. Bachelet has highlighted pension and healthcare reform, environmental protection, public security and education as her top domestic priorities. Her first week in office included an immediate declaration for free medical care for all Chileans age 60 and above. The center-left Concertacion coalition, which emerged from the December 2005 congressional elections with a majority in both houses of Congress, is expected to facilitate legislative approval for her initiatives. On foreign policy, Bachelet has indicated she intends to focus on strengthening Chile's ties with Latin America (i.e., Bolivia, Argentina, Peru). She advocates continued engagement with Venezuelan President Chavez, whom she emphasizes, "was democratically elected."

Chilean Economy

13. (SBU) Bachelet inherited an economy that saw real GDP grow an estimated 6.3 percent in 2005, following 6.1 percent growth in 2004. An unemployment rate of 7 percent is now at its lowest level since 1997. While the impressive numbers are due partly to record-level global copper prices, Chile's expanding web of bilateral trade agreements and responsible fiscal policy also play key roles. In recent years, Chile has concluded trade agreements with the U.S., E.U., South Korea, New Zealand, Singapore, Brunei and most recently with China and India. It has just begun talks with Japan. After the U.S., fully one third of Chile's trade is with Asia -- China, Japan, and South Korea are its number two, three and four trading partners, respectively. All indications are that Chile is seeking to expand further its economic ties with Asia.

14. (SBU) During the first two years of our own Free Trade Agreement, U.S.-Chilean bilateral trade has risen 84 percent. The main cloud hanging over the FTA's roaring success is Chile's weak and unwilling protection of patents, copyrights and trademarks. American companies are directly affected by patent violations, particularly in the pharmaceutical industry. We have pressed hard on the issue privately and publicly.

Bolivia

15. (C) Chile and Bolivia do not have full diplomatic relations. Their historic border dispute stemming from the War of the Pacific (1879-1883), in which Bolivia lost the province of Antofagasta and thus became landlocked, continues to cloud bilateral relations. Former President Lagos and former Bolivian President Rodriguez took several steps during the last six months of 2005 to improve relations, including agreements to eliminate tariffs on Bolivian imports and waive passports for cross-border travel.

16. (C) Evo Morales' election victory has raised Chilean concerns about a radical shift in Bolivia's foreign policy. At the same time, it also raised hopes that agreements could be reached with a Bolivian president who has clear popular support. Former President Lagos told WHA A/S Shannon during their meeting (Jan 2006) in La Paz, where they were attending Morales' inauguration, that Morales' mandate might enable him "to act sensibly" on the controversial issue of access to the sea. The two countries are engaged in confidence-building measures, including a recent visit to Chile by Bolivia's Defense Minister and cooperative de-mining operations along the Chile-Bolivia border.

Venezuela

17. (C) The Chilean government under Lagos privately shared our frustration with the Venezuelan leader's behavior, but believed it better to remain engaged in Venezuela in order to bring about democratic reform. Former President Lagos met with representatives of the Venezuelan opposition during his April 2005 visit to Caracas. Foreign Minister Walker, Senate President Romero and then presidential candidate Bachelet received SUMATE officials during their August 2005 visit to Santiago. However, Chile is reluctant to confront Chavez directly, due to economic and commercial interests in Venezuela, Venezuela's early, support for Chilean Jose Insulza's OAS SecGen candidacy, and Chavez' ability to stir up trouble for Chile with its neighbors.

Haiti

18. (C) Chile's peacekeeping operation in Haiti has enjoyed largely bipartisan support since the Chilean military self-deployed a battalion within 48 hours in February 2004. Congressional approval for the more than 500 Chilean

peacekeeping troops in Haiti expires on June 1, 2006. Any extension beyond that date should not be taken for granted. President Bachelet was Defense Minister then, but her views are unclear at this point. Opposition members of Congress recently have questioned the need for Chilean troops to remain in Haiti now that elections have taken place. Concerns about Chilean casualties (none to date), deployment costs, and the perceived slow pace of economic development in Haiti are likely to resurface when Congress debates the issue in May.

International Criminal Court/Article 98

¶9. (C) Chile has signed but not yet ratified the Rome Statute. The Lagos government agreed not to move forward on ratification during the remainder of its term to give Chile and the U.S. time to find "a creative solution" to avoid a cut-off of U.S. military assistance under the American Servicemembers' Protection Act (ASPA). However, support for ICC ratification runs across the political spectrum in Chile, as does opposition to signing an Article 98 agreement with the U.S. There are indications Chile will ratify the ICC sometime in 2006. While total U.S. assistance potentially affected by ASPA sanctions is relatively small (just over USD 5 million in 2006), GOC officials worry that sanctions could chill an increasingly valuable relationship and create openings for other countries to cooperate with the Chilean military.

Middle East

¶10. (C) The Lagos Administration was generally supportive of the Road Map and other U.S. initiatives to establish peace and security in the Middle East. FM Walker visited Israel and Ramallah in March 2005, and Palestinian President Abbas visited Chile in May 2005. Chile has third and fourth generations of Palestinian, Lebanese, and Syrian immigrants (the majority Christian) who are well-integrated into society. The Palestinian community is said to number over 300,000 -- the largest outside of the Middle East. The American Jewish Committee recently traveled to Santiago to bestow its "Light of the Nations" award to President Lagos. At the United Nations, Chile generally has adopted what it considers to be a "balanced" approach to the Middle East. Chile supported the Holocaust Remembrance Resolution, while also voting in favor of resolutions to fund international organizations that the U.S. considers anti-Israel.

Support at the United Nations

¶11. (C) Aside from opposing the Iraq intervention in early 2003, the GOC played a supportive role during its 2002-04 term on the UNSC. Chile supported U.S. initiatives on Afghanistan and Iraqi reconstruction, and provided the crucial ninth vote for UNSCR 1559, reaffirming Lebanon's territorial integrity. During the recent United Nations General Assembly meeting, Chile endorsed several key U.S. foreign policy objectives. Chile voted in favor of: Haiti-related resolutions; the Holocaust Remembrance Resolution; key resolutions condemning human rights practices in some countries; and, the re-election of a U.S. judge to the International Court of Justice. Chile played a leading role in supporting the Third Additional Protocol to the Geneva Convention.

Military Cooperation

¶12. (C) President Lagos expressed interest in strengthening U.S.-Chile military relations as an element in modernizing and normalizing the Chilean military's role in society. We do not have the same affirmation from the two-week old Bachelet government, but expect a similar orientation. Chile does not have a Status of Forces Agreement (SOFA) with any country, including the U.S. However, the U.S. and Chile exchanged diplomatic notes to provide limited protections to

DOD personnel in Chile for military exercises in 2005. A new exchange of notes covers exercises through June 2006, and Chile has put forth a draft proposal for concluding a long-term SOFA.

¶13. (SBU) The GOC took delivery in January 2006 of the first two of ten new F-16 fighter aircraft -- the first major purchase of U.S. equipment since the 1976 U.S. cut-off of military sales during the Pinochet era. The Army and Navy are also considering significant purchases of U.S.-manufactured systems. The U.S. has provided over USD 1 million to Chile's topnotch joint peacekeeping training facility and has been working to increase the GOC's global peacekeeping role. Chile has contributed small contingents to UN missions in Cyprus, Bosnia and Kosovo, in addition to the 500-plus troops and engineers currently stationed in Haiti.

Cuban Migrants

¶14. (C) In February 2006, Chile agreed in principle to accept for resettlement of 27 protected Cuban migrants from Guantanamo. It had been agreed Chile would begin conducting interviews with the migrants by mid-March. However, on March 2, Chile informed us that further movement on the resettlement process would be postponed until the Bachelet government had the opportunity to reaffirm the overall decision to accept the migrants.

Cooperation on Global Issues

¶15. (SBU) Chile supports U.S. non-proliferation, counter-narcotics and counter-terrorism objectives. It supported U.S.-sponsored non-proliferation initiatives during its UNSC tenure and recently co-sponsored the OAS MANPADS resolution. Chile enforces the United States Coast Guard's International Ship and Port Facility Security Code, but is not a signatory to the Container Security Initiative or the Megaports Initiative. While not a producer of illicit narcotics, Chile is a transit country and has its own domestic drug abuse problems. Chilean law enforcement entities are generally cooperative.

¶16. (SBU) Chile is a signatory to the UN International Convention for the Suppression of the Financing of Terrorism, as well as all 12 anti-terrorism conventions and protocols. In 2004, Chile completed two successful years chairing the UN Sanctions Committee. The UN considers Chile to be among the least hospitable countries for terrorist operations in the hemisphere. Chile has established a Financial Intelligence Unit to combat money laundering and terrorist finance, although relevant laws and institutional experience remain weak.

Deepening People to People Ties

¶17. (U) Chile has set a national goal of English language proficiency, and President Lagos asked the Peace Corps to return for a specialized program of English teaching. An assessment team visited in August 2005 and concluded the program would benefit Chile and further U.S. policy goals. However, the project was put on hold for budgetary reasons. The Fulbright Scholarship program in Chile celebrated its 50th anniversary last year and has enabled more than 1,500 Chileans to study in the U.S. and 800 Americans to study in Chile. The State Department's International Visitors program has been successful in identifying rising national leaders: in a 2005 listing of the 100 most important women in Chilean society, eleven were IV alumnae.

¶18. (U) In the area of youth sports exchange, Little League Chile has the status of a non-profit foundation and just finished its second season. The Embassy hopes to widen sports exchanges to include soccer and tennis in 2006. As

part of general public outreach, the Embassy works with binational centers in 10 Chilean cities. They offer English language instruction, guest lecturers, cultural presentations, classes on American history and literature, and art exhibitions. The Embassy has also opened two "American Corners" and has plans to open three more.

KELLY